

Message Text

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PAGE 01 STATE 003567

61
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TO AMEMBASSY BONN

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SUBJECT: DEBT PROBLEMS OF THE DEVELOPING COUNTRIES

REF: STATE-257428

1. THIS IS A FOLLOW-UP TO REFTEL. IT IS CONSISTENT WITH

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PAGE 02 STATE 003567

USG OBJECTIVE OF MAINTAINING A FRANK DIALOGUE WITH INTER-

ESTED CREDITOR COUNTRY GOVERNMENTS ON THE IMPORTANT ISSUE OF LDC DEBT. WE BELIEVE SUCH A DIALOGUE TO BE PARTICULARLY IMPORTANT IN VIEW OF ON-GOING DISCUSSIONS OF ISSUE IN BOTH DAC AND UNCTAD. REQUEST YOU DISCUSS THE POINTS NOTED BELOW WITH HOST GOVERNMENT OFFICIALS AND REPORT THEIR REACTIONS AND VIEWS.

2. THERE WAS LITTLE IN THE WAY OF CREDITOR-DEBTOR DIALOGUE AT THE OCTOBER 27 TO NOVEMBER 7 UNCTAD TRADE AND DEVELOPMENT BOARD CIFT (COMMITTEE ON INVISIBLES AND FINANCING RELATED TO TRADE) MEETING. THE DRAFT RESOLUTION ON DEBT SUBMITTED BY THE GROUP OF 77 ADVOCATED GENERALIZED DEBT RELIEF ON OFFICIAL DEBT "TO BE DETERMINED BY A COMMON SET OF FACTORS". THE DRAFT RESOLUTION ALSO CALLED FOR UNCTAD IV CONSIDERATION OF "BROAD INTERNATIONAL MEASURES DESIGNED TO ALLOW COUNTRIES WITH LARGE VOLUME OF COMMERCIAL DEBT TO LENGTHEN THE MATURITY OF SUCH DEBT". WHILE NETHERLANDS, SWEDEN AND NORWAY SAW MERIT IN RESOLUTION, ALL MAJOR CREDITOR COUNTRIES FOUND THE GROUP 77 DRAFT TOTALLY UNACCEPTABLE, AND AGREED THEY WOULD NOT ACCEPT THE TEXT EVEN AS A BASIS FOR NEGOTIATION. MAJOR CREDITOR COUNTRIES STRESSED THE IMPORTANCE OF "CASE-BY-CASE" APPROACH, AND WERE NOT PREPARED TO TAKE ANY ACTION BEYOND THAT RECOMMENDED IN THE REPORT OF THE AD HOC GROUP OF GOVERNMENT EXPERTS REFERRED TO IN PARA 9 (F) REFTEL.

3. THE BRIEF "DECISION" ADOPTED AT THE CIFT REQUESTS "THE SECRETARY-GENERAL OF UNCTAD TO CARRY OUT INTENSIVE CONSULTATIONS WITH CREDITOR AND DEBTOR COUNTRIES CONCERNED SO AS TO FACILITATE THE FOURTH SESSION OF THE CONFERENCE TO TAKE APPROPRIATE DECISIONS IN THIS AREA (I.E. DEBT PROBLEMS OF DEVELOPING COUNTRIES) IN THE LIGHT, INTER ALIA, OF THE DEVELOPMENT OBJECTIVES OF THE SEVENTH SPECIAL SESSION OF THE GENERAL ASSEMBLY, DEVELOPMENT ASSISTANCE POLICIES AND PROSPECTS AND DEVELOPMENTS IN THE WORLD ECONOMY."

4. WE WERE DISAPPOINTED WITH THE CIFT MEETING ON TWO MAJOR POINTS:

(A) THE CIFT AGENDA INDICATED THAT THE MEETING WOULD LIMITED OFFICIAL USE

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PAGE 03 STATE 003567

FOCUS ON THE REPORT OF THE AD HOC GROUP OF GOVERNMENT EXPERTS. THIS REPORT WAS RELATIVELY BALANCED AND WAS THE RESULT OF ALMOST EIGHT MONTH'S DELIBERATIONS. THE UNCTAD SECRETARIAT, HOWEVER, REJECTED THE EXPERTS' REPORT AS NOT RELEVANT TO THE CURRENT ECONOMIC SITUATION. IN DOING SO, THE SECRETARIAT STRESSED THEIR BELIEF THAT DEBT PROBLEMS ARE NOT PARTICULAR TO SPECIFIC COUNTRIES BUT THE RESULT OF GLOBAL MALADJUSTMENT BEYOND THE INFLUENCE OF DEBTOR

COUNTRIES. WE REGRET THE SECRETARIAT'S DECISION AND BELIEVE STRONGLY THAT THE CIFT SHOULD HAVE TAKEN INTO ACCOUNT THE CONCLUSIONS OF THE EXPERTS REPORT.

(B) IT NOW APPEARS THAT THE UNCTAD SECRETARIAT WITH GROUP-77 BACKING IS DETERMINED TO MAKE DEBT ONE OF THE MAJOR ISSUES AT NAIROBI (UNCTAD IV). US VIEWS ON THE NEED FOR A "CASE-BY-CASE" APPROACH TO DEBT PROBLEMS ARE NOT NEGOTIABLE, AND WE CANNOT ACCEPT ANY FORM OF GENERALIZED DEBT RELIEF. WE BELIEVE OUR POSITION ON THIS MATTER IS ALSO SHARED BY OTHER MAJOR CREDITORS (I.E., GERMANY, FRANCE, JAPAN, UK, AND CANADA). NUMEROUS DEVELOPING COUNTRIES -- PARTICULARLY THE MORE ADVANCED LDCS, HEAVILY DEPENDENT ON INTERNATIONAL CAPITAL MARKETS -- BELIEVE GENERALIZED DEBT RELIEF WOULD NOT BE IN THEIR INTEREST. IF, NEVERTHELESS, THE G-77 AND UNCTAD SECRETARIAT INSIST ON HIGHLIGHTING THE DEBT ISSUE AT NAIROBI WE FORESEE MUCH ACRIMONIOUS DISCUSSION WITH HIGH PROBABILITY OF NO PRODUCTIVE RESULTS.

5. THERE WERE IN OUR VIEW TWO POSITIVE DEVELOPMENTS AT THE CIFT MEETING:

(A) WE WERE PLEASED AT THE FIRM UNITY AMONG MAJOR CREDITORS (FRG, FRANCE, CANADA, JAPAN, UK AND US) ON THE NEED TO OPPOSE AUTOMATIC DEBT RESCHEDULING GUIDELINES, AND NECESSITY OF INSISTING ON THE "CASE-BY-CASE" APPROACH.

(B) WE WERE ALSO PLEASED THAT THERE WAS ONLY BRIEF MENTION OF THE IDEA OF A SPECIAL DEBT CONFERENCE. (SEE PARAGRAPHS 2 AND 9 (E) REFTEL) THERE ARE REPORTS THAT SOME LDCS ARE HAVING SECOND THOUGHTS ON THIS ISSUE FEARING THAT AN UNSUCCESSFUL CONFERENCE COULD HAVE ADVERSE EFFECTS

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PAGE 04 STATE 003567

ON THEIR CREDITWORTHINESS IN INTERNATIONAL CAPITAL MARKETS.

6. USG BELIEVES IT HIGHLY DESIRABLE TO DOWNPLAY DEBT ISSUE IN DISCUSSIONS OF GENERALIZED SOLUTIONS TO LDC BALANCE OF PAYMENTS DIFFICULTIES. WE BELIEVE LDC FINANCING PROBLEMS AND DEBT PROBLEMS ARE DISTINCT ISSUES AND SHOULD BE TREATED AS SUCH. WHEN INDIVIDUAL COUNTRIES EXPERIENCING BALANCE OF PAYMENTS DIFFICULTIES ALSO HAVE A SEVERE "DEBT" PROBLEM, WE BELIEVE THE "CASE-BY-CASE" APPROACH IS THE ONLY RATIONAL WAY OF TAKING THE WIDE DIVERSITY OF CURRENT DEBT SITUATIONS INTO ACCOUNT. USG WILL CONTINUE TO CONVEY ITS VIEWS ON THIS MATTER TO THE UNCTAD SECRETARIAT AND TO OTHER INTERESTED PARTIES.

7. OUR CHANCES OF GETTING THE UNCTAD SECRETARIAT TO DOWN-

PLAY THE DEBT ISSUE AT UNCTAD IV APPEAR UNCERTAIN AT BEST. JUST PRIOR TO THE CIFT MEETING WE HAD BEEN ADVISED BY THE DIRECTOR OF THE NEW YORK OFFICE OF UNCTAD THAT THE SECRETARIAT RECOGNIZED THAT THERE WASN'T A GENERAL "DEBT" PROBLEM, AND THAT THE SECRETARIAT WOULD FOCUS THE CIFT'S ATTENTION ON THE "AID" PROBLEM RATHER THAN DEBT. WE DO NOT KNOW HOW OR WHY THIS VIEW WAS OVERRULED, BUT IT MAY INDICATE THERE IS SOME RECOGNITION WITHIN THE SECRETARIAT THAT THERE IS NOTHING TO BE GAINED IN THE AREA OF GENERALIZED DEBT RELIEF.

8. WHAT CHANCES WE DO HAVE OF DOWNPLAYING DEBT WILL LIKELY DEPEND TO A CONSIDERABLE EXTENT ON THE DEGREE OF CONSISTENCY IN THE POSITIONS OF THE CREDITOR COUNTRIES AS THEY ARE PERCEIVED BY THE UNCTAD SECRETARIAT AND KEY LDCS. IN THIS CONTEXT, WE ARE SOMEWHAT CONCERNED THAT THE WELL PUBLICIZED VIEWS OF THE NETHERLANDS AND SWEDEN (REFTEL PARAS 4 AND 9 (B)) ON DEBT MORATORIA MAY BE GIVING SOME LDCS THE ERRONEOUS IMPRESSION THAT THE DIVISION AMONG THE CREDITORS ON THIS ISSUE IS SUFFICIENTLY SERIOUS THAT IT WILL EVENTUALLY PRODUCE A COMPROMISE SOLUTION FAVORABLE TO THE DEBTOR ADVOCATES OF GENERALIZED DEBT RELIEF. WHILE WE HAVE NO ILLUSIONS OF GETTING THE NETHERLANDS OR SWEDEN TO ALTER THEIR VIEWS ON THE DEBT ISSUE, WE BELIEVE WE CAN MAKE IT CLEAR TO BOTH THE UNCTAD SECRETARIAT AND TO INDIVIDUAL LDCS THAT THERE IS NO SUCH COMPROMISE IN THE LIMITED OFFICIAL USE

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PAGE 05 STATE 003567

OFFING. GIVEN THE FACT THAT THE MAJOR CREDITORS ARE ALL OPPOSED TO NETHERLANDS DEBT MORATORIUM PROPOSAL SUBMITTED TO THE DAC, WE ARE VERY DISAPPOINTED THAT THE DAC SECRETARIAT (IN THEIR DOCUMENT (75) (51)) IS ATTEMPTING TO KEEP THE ISSUE OF A DEBT MORATORIUM ALIVE. SUCH ACTION CLEARLY OVEREMPHASIZES THE VIEW OF MINORITY CREDITORS -- WHO HAVE VERY LITTLE TO LOSE AS A RESULT OF GENERALIZED DEBT RELIEF -- AND UNREALISTICALLY ENCOURAGES THOSE LDCS WHO BELIEVE THAT THE EFFORTS OF MINORITY CREDITORS CAN EVENTUALLY WEAKEN THE POSITIONS OF THE MAJOR CREDITORS.

9. WE WELCOME ANY IDEAS OR THOUGHTS OTHER CREDITORS MAY HAVE ON THE TREATMENT OF DEBT IN GENERAL, AND ON HOW THEY PERCEIVE THE DEBT ISSUE IN THE CONTEXT OF BOTH THE DAC AND UNCTAD IV. KISSINGER

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